

West End Office Market Watch



Take-up set to reach 4.2m sq ft by the end of 2019 as demand continues to remain strong

In September take-up reached 321,103 sq ft across 24 transactions. This brought take-up for the year so far to 3.05m sq ft. Whilst this is down 19% on the same period a year earlier, take-up still remains above the long term average for this period by 3%.

The largest transaction we saw complete over the month was Bridgepoint's pre-let of 7 floors (83,000 sq ft), at Almacantar's 5 Marble Arch development, which is set for completion in Q4 2020. In total around 950,000 sq ft has been pre-let this year, this accounts for 31% of overall take-up. Just over a quarter (26%) of the development pipeline for the next four years has already been pre-let and a further 10% of the pipeline is currently under offer.

We expect take-up for 2019 to reach 4.2m sq ft with underlying demand having picked up over the quarter. At 1.9m sq ft, space under offer is at its highest point in over a year and West End/Central London requirements, at 6.3m sq ft, are at their highest point in over 2 years.

This year take-up has been dominated by three sectors the Tech & Media, Insurance & Financial sector and the Serviced Office Provider sector. However the gap between these sectors has narrowed, with Tech & Media sector accounting for 21% of take-up and the Insurance & Financial sector following behind with 20%. Despite this the Insurance & Financial sector has accounted for over a quarter of the number of transactions that have completed this year. The Serviced Office Provider sector followed behind with an 18% share and has accounted for 534,465 sq ft of space let. This is roughly in line with the amount of space taken by the sector over the same period in 2018.

WeWork has accounted for 20% of space let to the Serviced Office Provider sector this year and now has acquired around 1.1m sq ft of centres in total across the West End. At the end of September WeWork was believed to be under offer on 280,000 sq ft, though there is still a lack of clarity on its long term strategy for its Central London centres in light of its recent withdrawn IPO and subsequent funding it has secured.

However less than a third (28%) of WeWork's Central London commitments are in the West End and as a result the market is particularly well insulated from any major consolidations of centres. To illustrate this point if we take the hypothetical, though extremely unlikely scenario of WeWork walking away from all its commitments in the West End, looking at the current rate of demand supply would equate to 15 months' worth of take-up. Using the same assumptions that no further space is added to supply current supply equates to 12 months worth of take-up at the rate we have seen over the past year.

Overall balance between supply and demand still remains below the 'over-supply' mark of 20 months for both the City and the West End illustrating the fairly limited impact any WeWork scenarios would have on the market as a whole.

At present supply stands at 4.5m sq ft, which equates to a vacancy rate of 4%. Limited supply across the West End is continuing to uphold prime rents and the Average Prime rent achieved over Q3 stood at £120.00 per sq ft, up 13% on £106.11 in 2018 over the same quarter. The Average Grade A rent was also up 10% on the same period in 2018 and stands at £82.57 per sq ft.

20%

Around 535,000 sq ft has been let to the Serviced Office Provider sector this year



4.2m sq ft

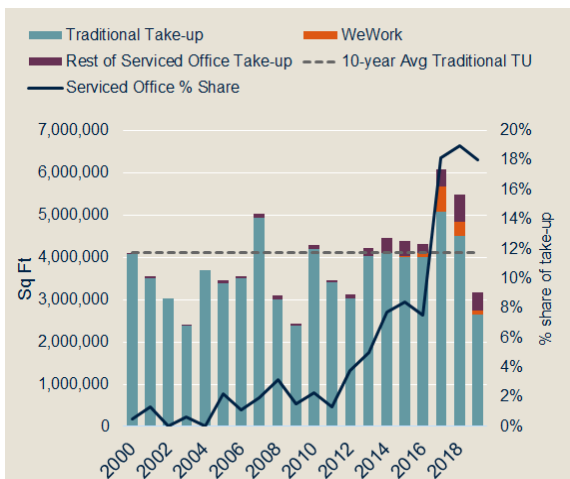
We expect take-up for the year will be up on the long term average by 2%

28%

of WeWork's Central London commitments are in the West End

West End take-up split between traditional and serviced office providers

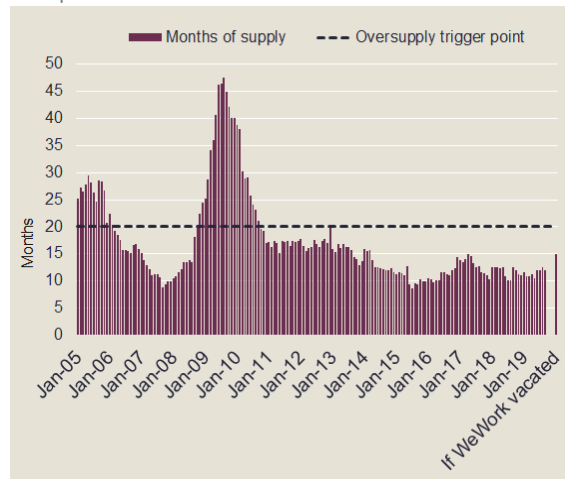
Graph 1



Source: Savills

Supply/demand balance including if WeWork vacated

Graph 2



£120 per sq ft was the average prime rent over Q3

Analysis close up

Monthly take-up

Table 1

	Sq ft	% Grade A	12 month rolling take-up
Oct-18	477,941	70%	5,243,040
Nov-18	349,030	84%	5,246,872
Dec-18	457,935	87%	5,138,164
Jan-19	235,461	81%	4,989,805
Feb-19	585,354	84%	5,284,499
Mar-19	420,802	73%	5,261,263
Apr-19	300,856	87%	5,272,363
May-19	317,111	60%	5,294,333
Jun-19	262,223	73%	5,031,268
Jul-19	462,026	77%	4,300,646
Aug-19	151,140	43%	4,451,786
Sep-19	321,103	89%	4,489,815

Year to date take-up

Table 3

	Sq ft	% change on previous year	% Grade A
Jan 18 - Sep 18	3,779,994	-6%	87%
Jan 19 - Sep 19	3,056,076	-19%	80%

Rents

Table 5

£ per sq ft	Top achieved	Average			
		Grade A	Grade B	Prime*	Rent free**
Sep-18	£100.00	£75.65	£55.03	-	-
Oct-18	£100.00	£75.64	£55.03	-	-
Nov-18	£105.00	£83.75	£59.50	£103.40	19
Dec-18	£85.25	£72.02	£51.50	-	-
Jan-19	£118.00	£71.39	£63.00	-	-
Feb-19	£130.00	£75.80	£62.56	£119.33	22
Mar-19	£250.00	£76.79	£55.16	-	-
Apr-19	£102.50	£73.43	£54.30	-	-
May-19	£115.00	£82.58	£69.00	£111.00	20
Jun-19	£120.00	£84.18	£62.57	-	-
Jul-19	£95.34	£86.00	£52.50	-	-
Aug-19	£120.00	£74.14	£52.50	£120.00	21

Supply

Table 2

Total	% Grade A	% chg on prev month	Vacancy rate (%)
5,146,841	66%	0.0%	4.2%
4,871,727	63%	-5.3%	4.0%
4,734,611	63%	-2.8%	3.9%
4,797,457	65%	1.3%	3.9%
4,810,098	59%	0.3%	4.0%
4,803,390	64%	-0.1%	4.0%
4,914,843	63%	2.3%	4.0%
4,679,894	60%	-4.8%	4.0%
5,009,154	60%	7.0%	4.1%
4,935,604	70%	-1.5%	4.0%
4,684,337	63%	-5.1%	3.8%
4,541,472	59%	-3.0%	4.0%

Development pipeline

Table 4

Sq ft	Refurb	Devs	Total	% Pre-let
2020	649,515	1,249,891	1,899,406	63%
2021	833,245	2,205,283	3,038,528	36%
2022	1,033,535	2,355,779	3,389,314	3%
2023	142,000	837,977	979,977	0%
Total	2,658,295	6,648,930	9,307,225	26%

Demand & Under-offers

Table 6

West End Potential Requirements (sq ft)	1.1m
West End Active Requirements (sq ft)	5.2m
West End Total Requirements (sq ft)	6.3m
% change on 12 month ave	27%
Total under offer (sq ft)	1.9m
Under offer this month (sq ft)	296,699
% change on average (total)	170%
Landlord controlled supply	70%
Tenant controlled supply	30%

*Average prime rent is for preceding 3 months

** Average rent free on leases of 10 years with no breaks for preceding 3 months

Note: Completions due in the next 6 months are included in the current supply figures

Significant September transactions

Table 7

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
5 Marble Arch Place, W1	1-7	83,000	A	Confidential	Bridgepoint Advisers	Almacantar
Bechtel House, 245 Hammersmith Road, W6	1-2	28,200	A	Confidential	Hana	Legal & General/MEC
The Marq, 32 Duke Street, SW1	3-5	18,331	A	Confidential	Triton Investment	Crown Estate
WestWorks, 195 Wood Lane, W12	Gpt	14,342	A	£50.00	Communications Store	Stanhope / Mitsui Fudosan
Queensbury House, 3 Old Burlington Street, W1	3	13,750	A	£110.00	Fiera Capital	Norges Bank

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Significant supply

Table 8

Address	Postcode	Available Sq ft	Comments
245 Hammersmith Road	W6	214,277	40,000 sq ft under offer
1 Jermyn Street	SW1	120,000	Quoting £87.50 psf
Elms House, Hammersmith	W6	96,260	Under offer
Euston Tower, Euston Road	NW1	63,820	Short-term leases - Not quoting
Albany House, 94-98 Petty France	SW1	60,000	Under offer
The Foundry, 77 Fulham Palace Road	W6	57,515	Under offer
The White Building, Notting Hill	W11	58,396	Quoting 42.50 psf

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